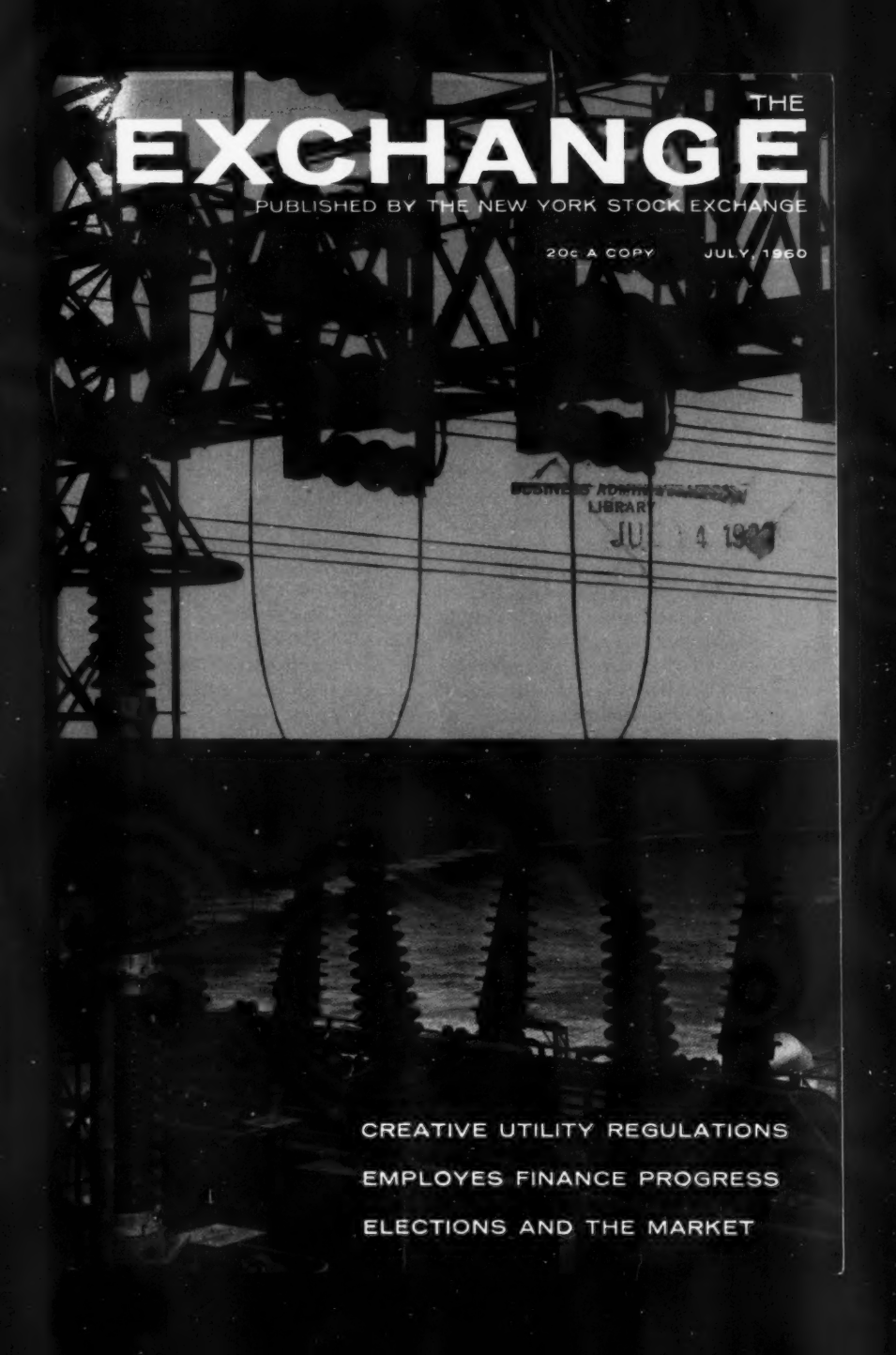


THE EXCHANGE

PUBLISHED BY THE NEW YORK STOCK EXCHANGE

20¢ A COPY JULY, 1960

BUSINESS ADMINISTRATION
LIBRARY
JUL 4 1960

CREATIVE UTILITY REGULATIONS

EMPLOYES FINANCE PROGRESS

ELECTIONS AND THE MARKET

NEW LOOK IN PROXY STATEMENTS

IT IS GENERALLY conceded that proxy statements do not inspire the reader interest of, say, a popular novel. They can best be described —charitably—as "forbidding."

The proxy statement, of course, is not a frivolous document but a careful presentation of corporate affairs which the shareowner is invited to vote upon. It is the duty of shareowners, presumably, to absorb page after page of technical language—often in rather fine print—with nothing so bright as a picture to break the monotony.

Recently, however, proxy statements and notices of annual meetings have begun to take on a fresh look. Evidently many listed companies believe they can meet all the legal requirements and still arouse interest among their stockholders.

Some random samples:

Union Carbide and IBM this year joined the growing list of companies which include brief biographical sketches and photographs of the men nominated as directors.

The Chesapeake & Ohio Rwy. used its proxy statement to promote attendance at its annual meeting. The site was Williamsburg, Virginia, and shareowners were told how to get there, how much it would cost, and what they would see.

McDonnell Aircraft, builder of the capsule in which an American is expected to be flung into orbit and returned to earth, featured the capsule on the cover of its notice of a special stockholders' meeting.

Marquette Cement continued its practice of picturing on the cover of its proxy statement a dramatic use of cement—in this case, a strikingly handsome modern building.

Florida Power & Light Company used one of its ads promoting the industrial advantages of Florida as the cover to its proxy statement.

There seem to be two main motives for "dressing up" proxy statements:

1. Most companies welcome a big attendance at their annual meetings, and there is little doubt that an attractive and warm invitation will turn out more people than a formal notice.

2. Most shareowners cannot personally attend annual meetings—but an attractive statement is the one that gets read and, assuming the stockholder agrees with management's recommendations, the proxy is voted by mail.

THE EXCHANGE

Vol. XXI, No. 7 • July, 1960

Second Class Postage Paid at the Post Office, New York, N. Y.
THE EXCHANGE is a monthly publication of the New York Stock Exchange.
Kenneth Hayes, Editor

Editorial Offices, 11 Wall St., N. Y. 5, N. Y. Tel.: HAnover 2-4200. Subscription price: $1.50 a year; $3.50 for three years. [Please notify us of an address change a month in advance, giving both old and new.]

The PUBLIC'S STAKE In Sound Public Utility Regulation

By ELMER L. LINDSETH
Chairman of the Board
The Cleveland Electric Illuminating Company

OHIO has long been known for its favorable business climate, its high rate of industrial growth, and the prosperity of its citizens, private and corporate. The state is recognized also for the growth and financial soundness of the utilities —electric, gas, and telephone — which serve its businesses and citizens.

Less well known is Ohio's philosophy and method of utility regulation. Often praised for the results it produces in low rates and good service, the Ohio formula is as often criticized by theoretical objectors who are unwilling to appraise the practical results of the regulatory process.

Ohio's investor-owned utility complex is a major segment of the state's total economy. These utilities operate businesses whose assets exceed $10 billion. They contribute $100 million each year in state and local taxes, and pay $150 million more in federal taxes. They supply jobs for 30,000 men and women and meet an annual payroll of $300 million. In addition, they spend millions of dollars locally for materials and supplies each year.

To regulate this vast complex, Ohio has for half a century followed a sound progressive regulatory philosophy.

Stiff Competition

It is sometimes claimed that utilities must be regulated because they have no competition. This is manifestly not true. Utilities have a great deal of competition. Electric utilities, to cite one example, must compete with fuels such as gas, coal, and oil. They compete with municipally-owned, tax-exempt power systems, with those subsidized by the Rural Electrification Administration, and with federal power projects such as the Tennessee Valley Authority. They compete with power generated independently by industrial plants for their own consumption. They compete with other sections of the country—including government power areas—for the attraction of new industrial plants. They compete for the consumer dollar with every other manufacturer who sells to the public. And finally, they compete for investors' dollars with

Elmer L. Lindseth began his association with The Cleveland Electric Illuminating Company in 1924, while an engineering student at Case Institute of Technology. In 1945 he became president of this utility which serves almost 600,000 customers and whose assets total over $500,000,000. Under him, the company has received nationwide recognition for promoting Cleveland-Northeast Ohio as "The Best Location in the Nation."

In April of this year Mr. Lindseth was elected Chairman of the Board. He continues to serve the Illuminating Company as chief executive officer.

Mr. Lindseth was graduated from Miami University in Oxford, Ohio, in 1923 with a B.A. degree, then took a B.S. at Case in 1925 after compiling the highest scholastic record in his class. He earned a Master of Science degree at Yale University the following year.

every other industry that enters the money market seeking capital funds. Yes, they have plenty of competition.

Nevertheless, the nature of the utility business requires that to give most economical service, a utility should not compete for the same customers with another utility providing the same service. Duplication of service in the utility business is extremely wasteful. Hence, utilities are required to operate under regulation.

In Ohio, municipalities are granted the right to regulate public utility companies by home-rule rate ordinances. The state has responsibility for settling rate disputes and, where no local ordinances exist, for fixing rates. It accomplishes these functions under regulatory laws which embrace Ohio's time-tested and effective formula.

The Ohio Formula

This formula, used to determine rate base, embodies the concept of current value known as "Reproduction Cost New Less Depreciation"—or, more commonly, simply RCN. The formula defines an upper limit on utility rates and, indirectly, on earnings as well.

The Public Utilities Commission of Ohio is required by statute

to fix a utility's rate base as of a certain date. It is also required to determine what percentage will represent a fair annual rate of return on this base. The RCN method evaluates a utility's plant and property according to its current value, in terms of today's dollar. Thus, it makes allowance for the effects of inflation. In applying this formula, the Public Utilities Commission must use judicial discretion in weighing the evidence submitted with respect to both existing depreciation and rate of return.

Ohio's method of regulation is not new. It first became law in 1913, and has endured with little change for 47 years. The law has encouraged utility managements to plan and build for the long run, by permitting earnings which justify the assumption of the risks that go with expansion and improvement. The regulatory climate which exists in the state has resulted in a readily available supply of low-cost capital when Ohio utility securities are offered to the public.

There is abundant evidence, too, that utility customers in Ohio enjoy rates that compare favorably with those in effect in other parts of the country.

Low Utility Bills

Monthly residential bills for combined electric, gas and telephone service average $25.14 in Ohio's eight largest cities. In the 25 largest cities in seven surrounding states, the average is $32.10—27 per cent higher. Only three of the 25 have residential bills lower than the Ohio average.

It might be helpful to examine in more detail some results under RCN in a representative portion of the utility industry—the electric. There is no reason to suppose, however, that what has been true for electric utilities does not hold as well for gas and telephone companies in Ohio.

Service—Electric service meets the highest standards. Because of high use, the state's investor-owned electric companies have an average

of 1½ times as much generating capacity per customer as do those in the nation as a whole.

Rates—The average residential bill for 250 kilowatt hours in Ohio is seven per cent below the national average. Thirty-one states have higher average residential electric rates than Ohio's.

Modernization—Since World War II, Ohio's electric utilities have spent over $2 billion on new plant and equipment. From 1946 through 1958 modernization expenditures in Ohio amounted to $553 per customer, contrasted with an average of $430 throughout the nation.

Credit—Ohio's electric utilities enjoy credit ratings among the highest in the nation. It is axiomatic that the higher the credit rating, the lower the cost of raising capital in the money market.

Top Power User

One effect of performance of this quality is that Ohio annually consumes more electric power than any other state, though fifth in population and 35th in area.

What of the outlook? Are other states moving closer to Ohio's method of utility regulation?

The answer seems to be yes. There is increasing evidence that more and more jurisdictions are returning toward Ohio's philosophy.

The reason: use of current value to determine the rate base is consistent with the economic laws which control free competitive enterprise.

There is still another reason favoring Ohio's current-value concept of rate-making. It is the state's enviable record of industrial growth. At least some of the credit for such development belongs to the method of utility regulation here. Two reasons lead to this conclusion:

Utilities have been able to earn enough to expand and modernize their facilities, letting them offer industry abundant service at attractive rates.

Confidence in sound regulation has given the utilities incentive to promote Ohio as a good location for new industry.

This promotion has paid off. A recent survey among 1,000 leading industrial executives placed Ohio as the leading eastern state and nationally behind only California, as a preferred location for new plants. Ohio today ranks fourth in the nation in value added by manufacture. From 1951 through 1957, more dollars were invested in new and expanded manufacturing facilities than in any other state.

However appraised, Ohio's industrial achievement has been notable. Some of this success, surely, is due to the performance and contributions of utilities operating under RCN. Thus, Ohio's philosophy of utility regulation is not so much a product of the state's robust business climate as it is an important ingredient in the making of that climate.

CASH FLOW

THE TERM "cash flow" has a faintly familiar ring—perhaps it evokes the memory of what happened to the last pay-check.

Actually, "cash flow" is a new approach to interpreting corporation earnings which is coming increasingly into use. "Cash flow" contrasts with the traditional "net income" method of measuring company's financial position.

In figuring "net income," total current receipts for a stated period are reduced by two basic kinds of accounting entries. One type consists of normal current operating charges, such as payroll and material costs. The other includes charges for amounts set aside on a company's books but which don't require current cash disbursements. Among the main items in this group are charges for depreciation and deferred taxes.

Depreciation is the amount of money charged against net income to distribute the cost of equipment and machinery over its useful life. For instance, a company buys a machine for $20,000 and figures its useful life at 20 years. Each year—under one method of computing depreciation—the company charges net income with $1,000. At the end of 20 years, theoretically, the company should have available $20,000 to buy a new machine.

Both depreciation and taxes are deducted before net earnings are reflected.

Under "cash flow," a company's current receipts from customers are reduced only by current cash expenses, and not by such "non-cash" entries as depreciation and deferred taxes. As a result, a higher level of

funds is usually shown as flowing into the corporation's treasury than is reflected by "net income"—thereby explaining how the "cash flow" analysis comes by its name.

It should be emphasized that just as many dollars wind up in a company's coffers under the "net income" approach, but since a portion of earnings are earmarked for depreciation and deferred taxes, net income is reduced to that extent. Basic to the "cash flow" concept, on the other hand, is that these additional dollars are very much in evidence and exert substantial effect on a corporation's operations, such as furnishing management the immediate cash to enlarge its physical plant or build up inventories.

Take two similar companies in the same industry, both of which have about the same amount of invested capital. Company "A" had reported earnings in its latest fiscal year of $2 a share. Company "B" published net income for the corresponding period of $2.25 a share. Company "A" observes a policy of rapid depreciation which came to $4 a share. Company "B," with a different depreciation method, had a similar entry amounting to only $1 a share.

As the accompanying table shows, the total cash flow Company "A" actually netted from operations amounted to $6 against Company "B"'s $3.25. The disparity between the two companies was accentuated by the fact that since depreciation is deducted before taxes, Company "A" was able to retain still more dollars than might have gone out in taxes. Noteworthy, too, in the illustration, is the fact that Company "B," with larger net income, had a smaller cash flow.

Thus it can be seen the "cash flow" method basically tells the investor or analyst how much money a company actually has available to spend; it focuses on its current purchasing power with little immediate regard for past financial events. "Net income," on the other hand, presents a clearer view, from a technical accounting standpoint, of a company's current earnings in light of its overall financial picture as depreciation is very much a cost of doing business.

To put it another way, "cash flow" is often a measure of the

	Company A	Company B
1. Income after interest charges but before depreciation & taxes	$8,166,667	$5,687,500
2. Depreciation, etc.	4,000,000	1,000,000
3. Net income before taxes	4,166,667	4,687,500
4. Taxes	2,166,667	2,437,500
5. Net Income	2,000,000	2,250,000
6. Shares outstanding	1,000,000	1,000,000
7. Earnings per share	$2.00	$2.25
8. Cash flow per share (Line 2 plus 5 ÷ Line 6)	$6.00	$3.25

current amount plowed back by a company into its business. Such funds place the company in a stronger position to enlarge future earning power through plant expansion and modernization. Not surprisingly, "cash flow" is a concept especially useful, in the opinion of securities analysts, in evaluating so-called "growth" companies —those usually in industries expanding faster than the economy itself.

There is a fundamental difference in attitude between the "net income" and "cash flow" approaches which should be stressed. The use of "cash flow" analysis emphasizes not only the importance of current purchasing power on a company's future earning capacity, but also the view that cash generated through depreciation charges simply constitutes the recovery of funds from past outlays for fixed assets.

However, while "cash flow" advocates contend that such funds should be analyzed on a forward-looking basis, accountants for the most part hold that depreciation is merely the allocation of an asset's past cost in a systematic manner over its expected life. Such charges, they contend, are just as much a part of the cost of doing business as labor costs, repairs or other regularly-incurred expenses.

"Cash-flow" analysis became increasingly important starting with the Korean War period when more and more companies obtained so-called "certificates of necessity" issued by the government to spur the construction of defense-related facilities. A "certificate of necessity" allowed a company to take depreciation deductions for Federal income tax purposes over a span of only five years compared with longer normal periods ranging up to 25 years. Hence, the certificate is colloquially known as a "fast write-off."

Though the program of authorizing such fast write-offs has just about gone out of existence, accelerated depreciation methods are also available under a 1954 revision of the U. S. tax law. These methods are not as drastic, but a recent Treasury Department survey shows they are being increasingly adopted by U. S. corporations. A primary consideration, of course, is the increased availability of cash.

There is an opposite side of the accelerated depreciation coin, to be sure. To the extent that the immediate effect of increased depreciation is to reduce stated earnings, the reverse reaction occurs after such assets are written off. Reported earnings then rise and "cash flow" is thereby diminished.

Yet the fact remains that "cash flow" analysis enchance the process of comparing similar companies for the purposes of financial analysis.

Accountants concede that it is a useful measure, just as long as it is used to supplement, and not supplant, the fundamental net income approach.

—NEW LIFE for the Rails?

THE railroad industry is currently facing what may be the most violent upheaval since the early 30's. The end result may be the rejuvenation of a basic transportation system on a paying basis —or the slow strangulation of the iron horse.

Some individual railway systems are enjoying excellent financial health today, a fact borne out by the market performance of their securities. Others, though, are fighting desperately to stay out of the red and a few have their backs to the wall.

Back in the 30's the railroad business took just about as bad a mauling as it was possible for any industry to take and still survive. Traffic dwindled as the depression slowly smothered the entire economy. In addition, most rails were handicapped—to put it mildly—by debt-heavy capital structures. Proceedings under the Bankruptcy Act was the prescription. Today, some 30 years later, the rail industry is again in a period of crisis although the crisis, happily, does not affect all rail systems by any means.

Reasons advanced for the predicament of some of the carriers are many and varied, depending largely on the point of view of the critic. They include: inelastic rate structures; failure of the Interstate Commerce Commission to recognize the industry's problems; feather bedding; built-in losses from commuter traffic; inadequate management; population shifts; competition from trucks, planes and automobiles (often it's "subsidized" competition); unfair local taxation; failure of the rails to anticipate or adjust to the future; antiquated equipment; and poor service. The list is not complete but it offers a rough idea of the problems involved.

The most talked about solutions currently are merger, tax abatement, subsidy and a better understanding by labor and the rails of their mutual problems. Just a few weeks ago, for instance, directors of two big carriers—Norfolk & Western and New York, Chicago & St. Louis—agreed on merger, subject to approval by stockholders and the ICC.

The accompanying table shows pretty clearly what has happened

to listed railway common stocks in relation to the market at a whole. Railway issues were the backbone of the Stock Exchange list for a good part of the last century and part of this. Industrials didn't turn up in any volume until around 1900. As recently as 1929—the earliest year for which details are available—92 listed rail equities accounted for 12.3 per cent of all common issues listed on the Exchange. And the market value of rail commons that year amounted to 13.1 per cent of the value of all common shares.

From then on the rails declined in number of stock issues listed and in the ratio of those listings to all commons on the Big Board. By 1935 rail commons totaled 75, or 9.7 per cent of all listed common stocks. Their market value represented 8.9 per cent of market value of all common issues.

Five years later, in 1940, the number of rail issues had shrunk to 64, or 7.8 per cent of all listed common issues. Market value of the railroad stocks then was 5.2 per cent of the common list.

From 1940 to 1945 the rails did pretty well — reflecting, of course, the tremendous traffic generated by the war. A handful joined the Exchange list between 1945 and 1950—but the market value of the rail group dipped while the market value of all commons advanced sharply.

From 1950 to 1960—one of the most prosperous periods in the nation's history, a period when the lustiest bull market on record grew up—rails didn't do much more than putter along in relation to the market as a whole. The number of rail commons dropped from 66 to 47; the ratio of those issues to all listed commons contracted to 1.3 per cent from 6.5 per cent.

While the market value of the carriers' common shares more than doubled in that decade, the market value of all commons more than quadrupled.

RATIO OF MARKET VALUE OF ALL LISTED COMMON STOCKS TO MARKET VALUE OF LISTED RAILROAD COMMON ISSUES

As of Jan. 1st:	No. of Common Issues			Market Value of Common Stocks		
		Rails			Rails	
	Total	Number	% of Total	Total	Market Value	% of Total
1929*	749	92	12.3	$ 59,802,573,153	$7,816,683,315	13.1
1930	842	91	10.8	56,971,827,160	7,444,022,200	13.1
1935	771	75	9.7	28,932,648,696	2,563,338,432	8.9
1940	825	64	7.8	40,236,163,488	2,096,402,748	5.2
1945	864	63	7.3	47,658,335,470	3,161,429,491	6.6
1950	1,017	66	6.5	68,329,255,214	2,827,830,302	4.1
1955	1,076	66	6.1	160,783,112,015	6,155,470,885	3.8
1960	1,092	47	4.3	300,958,643,765	6,364,534,456	2.1

* Earliest Date Available.

EMPLOYES FINANCE PROGRESS

By HAROLD R. BUNCE

CAPITAL is where you find it—and the Bell Telephone System, the world's largest corporate enterprise, is not at a loss for sources of funds to finance a vast and continuing plant expansion program.

Since the end of World War II, the American Telephone & Telegraph Co., has spent the staggering sum of $21 billion in new construction. It has raised $15 billion in capital, more than $12 billion in the securities markets. Most people rightly think of the main source of such new funds as insurance companies, pension funds, charitable, religious and educational funds, individual investors and the enterprise's own shareowners to whom stock and debentures convertible into stock are offered on a subscription basis.

In addition, however, the Bell System has had a responsive source never explored more effectively by any other private concern. Since 1916 thousands of Bell System employes have supplied more than $1 billion by exercising their rights to buy stock of the parent company on a payroll reduction plan. This

is 8-1/3 per cent of all the money the Bell System has raised from outside capital sources.

When an enterprise gets as big as the Bell System, there is a widening difference between what it spends on new plant and the amount of capital it must attract from external sources. In 1960 American Telephone's capital expenditure budget is about $2.6 billion, of which about half will come from outside the company.

Dynamic Growth

The Bell System employe stock purchase plans have been expanded since the end of World War II just as direct offerings to stockholders under subscription rights and issuance of debt instruments directly to the public have expanded.

The growth of Bell services has been dynamic and capital needs have been nothing short of fantastic. The number of Bell System telephones in service has grown from 22 million to about 59 million. Households with telephones have increased from less than 50 per cent to about 80 per cent.

Capital being where you find it, the Telephone management hasn't neglected to give employes an opportunity to participate in this growth. Shareowners and employes have supplied about 60 per cent of the $12 billion raised since the war. Shareowners have been offered eight issues of convertible debentures and one direct offering of stock. Their subscription rights have been of great money value. So have the rights of employes to seven prime offers of stock, the last of which was fully paid for in June of this year.

A point of distinction is that shareowners who do not choose to exercise their subscription rights may sell them. Employes' rights are not transferrable.

An eighth offer to employe's is about to become effective and it is expected to take up practically all that remains of the 21,000,000 shares approved by shareowners for sale to employes under the current plan. Employes of American Telephone & Telegraph Co. and of any of its principal operating subsidiaries were given the right to purchase one share for each $133 1/3 of his annual base rate of pay, but no one will have the right to buy more than 300 shares.

The cost will be 85 per cent of market price on the last business day of June 1962, but will not be more than $74.80 a share or less than $33.34 a share, the latter being par value. The $74.80 figure is 85 per cent of the average market value on April 29 last. June 1962 will mark the end of the 24 monthly installments to be deducted from payroll checks.

There is a way out for any employe who finds himself unable to manage the installment payments. He may be permitted to cancel the whole subscription and get his money back, with interest.

Or he may cancel part of the subscription and continue to make installment payments on the uncancelled shares. Or he may have his paid-in money applied to the number of shares it will pay for.

Of the 730,000 Bell System employes, an estimated one-third own A.T.&T. stock purchased on the payroll deduction plan. Many of them have become as accustomed to payroll deductions for stock purchase as to withholding of federal income taxes, social security taxes, and hospitalization premiums.

Not infrequently, they have found that automatic or merit pay increases lighten or even eliminate the burden of stock purchases. And the dividends on A.T.&T. stock already put away in the box are a help toward paying for the current commitment for even more stock.

Without the more than $1 billion obtained through the sale of stock to employes, it would have been necessary for the Bell System to make larger offerings to stockholders or to the public market, or to have spaced these offerings closer together. The last convertible debenture offering to share owners was for $718 million, early in 1958. Conversions of this issue into common stock have brought the company an additional $290 million of fresh capital.

Five times since the war, A.T.&T. has tapped the public market for $250 million at a clip and on five other occasions for smaller—but huge—amounts. Operating telephone subsidiaries have brought out debentures in a steady flow over that period.

The billion or more supplied by employes has been a significant contribution to the success of Telephone Company financing.

RECORD NEW LISTINGS —MAYBE!

TWENTY-TWO companies joined the Stock Exchange list for the first time in the first five months of this year and the total is growing fast.

There doesn't seem to be much question that the 41 new common stocks listed in 1959 will be easily topped this year. And there's a possibility that the record 57 new listings hit in 1946 may be approached in 1960, or even topped.

In late May and the first half of June alone, trading started in five companies. Here they are in the order of listing:

First Charter Financial Corp. is the parent company of 6 savings and loan associations and 11 other subsidiaries with more than $600,000,000 in assets. This California company traces its roots back to 1885 when two of its associations Pioneer Investors Savings and Loan and Home Mutual Savings and Loan were organized.

First Charter of California is one of the few publicly owned savings and loan companies. Basic function of the organization is to channel savings into the hands of borrowers for the purpose of home ownership. The company has 39 offices in key metropolitan areas in California and has scheduled two additional offices for opening in the near future. As of mid-February, there were 16,829 shareowners.

Trading in the company's 6,150,000 outstanding no-par common shares (out of 10,000,000 authorized) started May 25 (Ticker symbol: FCF). The issue opened at $26.37 a share. Final price was $25.50 on a hefty volume of 31,300 shares that day.

Net earnings for the first quarter of 1960 amounted to $2,261,207, equal to 37 cents a share, against net of $2,086,321 or 33 cents a share in the comparable 1959 period. The company reports that no dividend policy has yet been adopted but a 2½ per cent interim stock dividend was disbursed in December, 1959.

Borman Food Stores Inc., operates a chain of 47 supermarkets in the metropolitan Detroit area and in Plymouth, Pontiac and Utica, Michigan.

Borman had its origin in a small neighborhood store in 1924. By 1953 it had become a chain of 19 units doing an annual volume of $25,000,000. A little more than six years later, the company had 47 supermarkets operating at an annual rate of more than $100,000,000.

Trading began on the Stock Exchange on May 31 in the company's 1,162,922 outstanding $1-par common shares (out of 1,500,000 authorized). (Ticker symbol: BRF) First day's turnover amounted to 2,900 shares. The stock opened at $21.87 and closed at $20.62 for a net loss of $1.25.

A quarterly dividend of 12½ cents a share has been paid on the common since the stock was first offered for public sale on January 27, 1959. A 3 per cent stock dividend of 32,839 shares was also distributed in October last year. The company has about 3,250 stockholders.

In an interim report for the nine months ended March 26, 1960 (the fiscal year is based on 52 weeks ending in June), the company reported record sales of $70,665,917, a 20 per cent increase over $58,748,634 in the comparable period a year earlier.

Net income for the nine months amounted to $1,250,257, equal to $1.09 a share, compared with $1,013,948, or 90 cents a share, a year earlier.

Carlisle Corporation operates in two areas: specialty industrial and consumer rubber and plastics products, and miniature wire and cable for the electronics industry.

On June 1 trading started in Carlisle's no par value common stock. (Ticker symbol: CSL) The company has 1,138,582 shares outstanding and 2,000,000 authorized, following a recent 2-for-1 split. The stock opened at $22.75 a share and closed at $21.25.

The company reported net sales for the first quarter of $6,389,574, up 25 per cent over $5,129,121 in the first quarter of 1959. Net earnings amounted to $351,239, equal to 30 cents a share, compared with $266,949, or 24 cents a share (adjusted for the stock split), a year earlier. Figures for the first quarter this year included sales and earnings of a new wholly-owned subsidiary, International Wire Products Corp., acquired on December 31, 1959.

The stock is on a quarterly dividend rate of 20 cents a share, and the company's 2,300 shareowners have received two payments of that amount thus far in 1960. The company has made quarterly payments without interruption since June 19, 1950.

Headquarters are in Carlisle, Penna., at the plant of the Carlisle Tire & Rubber Division, which manufactures a complete line of inner tubes for cars, trucks and airplanes, as well as bicycle tires, tubes and specialty products.

Miniature wire and cable products are manufactured by subsidiaries in Tarrytown, N. Y., and

Midland Park, N. J. Molded and extruded rubber and plastics products are produced in Ridgway, Penna., Middlefield and Crestline, Ohio. A subsidiary in Anaheim, Calif., designs and produces highly engineered rubber components.

Earle M. Jorgensen Co., Los Angeles, joined the Exchange list on June 13, when trading started in the company's common stock. (Symbol: JOR) The issue opened at $18.50 a share, closed at $18.75 on volume of 1,000 shares.

Jorgensen is a steel company that doesn't make steel. The company buys steel from some 60 mills and distributes it through 13 service centers in 8 states, serving industry throughout the west and southwest, plus Hawaii.

The company also functions as a distributor for Kaiser Aluminum.

The company was founded in the early 20's by Earle Jorgensen, who continues as President and Chairman.

Stock was first sold to the public in March, 1957. In November, 1959, an additional 150,000 shares were sold bringing the total common outstanding to 1,050,000 shares. Stockholders increased to 3,700.

Regular quarterly dividends have been paid since the stock became publicly owned, with the annual rate increased in January 1958 from 90 cents to $1 a share.

Net earnings last year amounted to $2,027,392, equal to $2.15 a share, based on the 913,561 average shares outstanding during 1959, which represented a gain of 51.4 per cent from $1,338,697, or $1.49 a share, in 1958.

Raymond International Inc., a world-wide construction firm, joined the New York Stock Exchange in June 15.

The company was founded in 1897 and was known as Raymond Concrete Pile Company until 1958 when stockholders approved the change to Raymond International to reflect the firm's global operations. Heavy construction accounts for nearly half of Raymond's volume, foundation construction about 35 per cent, and the balance pre-stressed concrete products, soil investigation, pipe lining and concrete pipe.

In the United States, the company is building missile bases, dams, subways and harbor facilities. Operations overseas are carried on in more than 20 countries on six continents.

The company's 2,972,058 shares of $3.33-par value common shares (Symbol: RII) opened on June 15 at $22.12 a share and closed at $21.75. Volume was 2,300 shares.

Consolidated net income for 1959 amounted to $5,123,275, equal to $1.72 a share, compared with $3,917,103, or $1.33 a share, in 1958.

Dividends have been paid on a quarterly basis since 1936. A dividend of 20 cents was paid in the first and second quarters of this year. The company has 3,300 shareowners.

Presidential Elections And The Stock Market

PROBABLY no single political event in the United States attracts the attention given to a Presidential election.

Before the results of the election, and after, the facts and fancies are weighed with meticulous care by the experts and the amateurs. Elections are studied in terms of the national welfare, in terms of the women's vote, the men's vote, the potential teen-age vote, the North and the South.

What happens to gross national product in an election year? What happens to the corn-hog ratio, the rediscount rate, the mean average rainfall in states where primaries are held? Will taxes go up or down and, if so, why? Which Party will control Congress?

A look at the action of the stock market during past presidential election years may be worthwhile. Is there an election-year pattern?

Do election results affect the market—and, if they do, how much and how long?

The chart on the following page shows what happened to the stock market, as measured by the Dow-

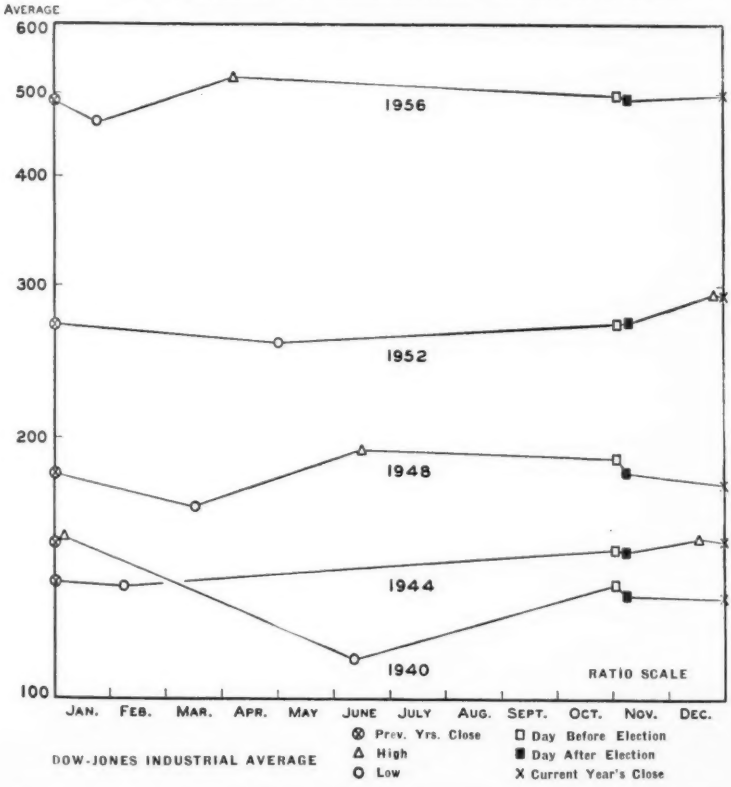
Jones average of 30 industrial issues, in each election year from 1940 through 1956. The high-low for each year is given, plus the action of the market immediately before and after the election, and the course of the market from the election to the end of the year.

The *rate* of change, rather than absolute increases or decreases, is measured in this chart. In other words, a 10 per cent swing in the Dow-Jones industrials over a given period—whether from 200 to 220 or 500 to 550—appears the same.

One point should be emphasized before attempting to interpret the chart.

The stock market responds to many different influences, ranging

STOCK MARKET IN PRESIDENTIAL ELECTION YEARS



from the personal investment decision of an individual to the Federal Reserve Board's industrial production index. Even an event as important as a Presidential election must be weighed in the broad context of other market factors.

In 1940, for instance, war developments dominated the market. Prices on average declined from the start of the year until mid-June when the low for the year was touched —which coincided with the fall of France and the evacuation of Dunkerque. Then the market recovered until just before the late President Roosevelt was re-elected for a third term. The market dropped briefly following the election and then levelled off for the balance of the year.

In 1944, the market gently advanced until President Roosevelt was re-elected for a fourth term when there was a momentary drop. Following the dip, though, the market picked up a little steam and closed around the high for the year. Among other reasons, this was a notable year because not on one day did the market advance or decline by as much as 2 per cent as measured by the D-J industrial average.

In 1948, the year former President Truman was elected, the market declined until it touched the low for the year in mid-March. A rebound carried the market to the year's high in mid-June and then a mild decline set in. The election itself was followed by a sharp decline and then the market resumed a fairly slow slide.

In 1952, the year President Eisenhower was elected, the market started off with a quiet decline which carried it to the low for the year on May 1. A recovery erased the year's losses by election time. The election had no immediate effect on the market but the recovery which had started in May gained momentum and the market closed at the year's high.

In 1956, when President Eisenhower was re-elected, the market lunged ahead—after a setback in January—until a high for the year was reached in early April. From then until the election the main trend was downward. Following the election, prices declined but within a few days a rally got under way which lasted up to the end of the year.

To sum up, these points seem to be valid:

1. There is no overall election year pattern. The market is influenced more by deep-seated economic factors than by political considerations—although admittedly the latter may affect the former.

2. Election results may have a brief but sharp impact on the market.

3. The *immediate* effect of election results on the market may carry through—or they may be reversed. It seems likely that once election results are digested, the market again comes under the primary influence of economic development or expectations.

STOCK MARKET VS STOCKS

IT has long been the fashion in Wall Street to talk about the market, and various groups of stocks within the market, as though they advanced or declined—or did nothing—in unison.

Virtually everybody with any interest in securities hears such comments or statements as:

"The market advanced sharply today."

"Oils have dropped to real bargain levels."

"Man, look at those chemicals!"

"Whaddaya think of the rails?"

Yet canny investors know—and *every* investor should know—that the soundest investment technique is the careful selection of individual stocks. This may sound like another case of hammering the obvious over the head. It would be interesting to know, though, how many so-called investors, upon hearing that a particular group of stocks was much in demand, rushed off to buy shares in a company they never heard of, simply because it was one of the group.

Analysis of the market as a whole, and of the price action of stock groups within the market, is certainly a valuable investment tool—if used with care. The investor may find it well worthwhile, for instance, to compare the action of a single stock—a pharmaceutical, say—with the action of all pharmaceuticals. Did the stock he is investigating perform as well as the group—or worse, or better? Or how did the pharmaceuticals as a whole behave in relation to the market in general over a period of so many months or years?

Industries and Averages

The three groups of stocks listed on the following page are a good case in point. The three—chemicals, utilities and rails—were selected arbitrarily and the issues within each group were chosen more or less at random. The five years from June, 1955 to June, 1960 happened to be a convenient period in the recent history of the market.

During the five years, the market as a whole—as measured by the Dow-Jones average of 30 industrials—advanced 17.1 per cent, a pretty hefty gain.

Now, let's take a look at the ten chemicals—a group very much in the public eye in the past five years.

On a percentage basis, three issues did substantially better than the market as a whole—Atlas Powder, Dow Chemical and Food Machinery & Chemical. Union Carbide did just about as well as the market while Allied Chemical inched ahead.

About half of the ten chemicals selected declined during the five years. Losses ranged from .5 of one per cent for Columbian Carbon to 61.4 per cent for Texas Gulf Sulphur.

How about the utilities? Some people tend to look on utility issues with kindly benevolence—"Sure, they're good defensive stocks; after all, people have to use electricity!"—and forget the effects of an expanding population, greater use of appliances and increased industrial power demand upon our utility systems.

The D-J average of 15 utilities jumped 38.5 per cent during the five years under discussion. Only one of the ten tabled utilities—Ohio Edison Company with a gain of 17.3 per cent—exceeded that figure. Gains for the other nine ranged from 5.6 per cent for Boston Edison Company to 37 per cent for Kansas City Power & Light Company. Five of the tabled issues showed gains of around 20 per cent.

What About Rails?

The rails present a still different picture. During the five years, the D-J average of 20 rails dipped 12.9 per cent. Norfolk & Western Railway, however, bounded an impressive 71.7 per cent and Chesapeake & Ohio gained 16.9 per cent.

Of the eight rails which declined, seven dropped more than

the D-J rail average—ranging from 19.9 per cent for Santa Fe to 70.7 per cent for Missouri-Kansas-Texas. Southern Pacific dipped a mere 4.3 per cent.

Moral: Don't buy the averages or stock groups—select individual issues and get all the available facts before you make your decision.

Incidentally, what did the market do today?

FIVE-YEAR PRICE PERFORMANCE OF 10 SELECTED COMPANIES IN 3 INDUSTRY GROUPS

June 1, 1955 to June 1, 1960

Common Stock	Opening Price		Per Cent
10 Chemicals	June 1, 1955	June 1, 1960	Change
Allied Chemical Corp. (1)	$51 3/8a	$ 52	+ 1.2%
Atlas Powder Co.	55 7/8m	92	+ 64.7
Columbian Carbon Co.	47	46 3/4	− 0.5
Dow Chemical Co.	50 7/8a	90 7/8	+ 78.6
Food Machinery & Chemical Corp.	25a	48 1/8	+ 92.5
Monsanto Chemical Co.	42 3/8a	40 7/8	− 3.5
Olin Mathieson Chemical Corp.	53 5/8	42 1/4	− 21.2
Pittsburgh Coke & Chemical Co.	22 3/8a	21 3/8	− 4.5
Texas Gulf Sulphur Co.	42 3/4	16 1/2	− 61.4
Union Carbide Corp. (2)	92 1/2	133 1/4	+ 44.1
10 Utilities			
Boston Edison Co.	57 5/8	60 7/8	+ 5.6
Central Hudson Gas & Electric Corp.	17 1/2	20 3/4	+ 18.6
Consolidated Edison Co. of New York	49 1/8	62 3/8	+ 27.0
Detroit Edison Co.	35 7/8	43 1/8	+ 20.2
Kansas City Power & Light Co.	40 1/2	55 1/2	+ 37.0
Ohio Edison Co.	22 3/4a	33 1/2	+ 47.3
Philadelphia Electric Co.	38 5/8	49 3/8	+ 27.8
Public Service Electric & Gas Co.	31 3/8	36 5/8	+ 16.7
Southern California Edison Co.	49 3/8	56 7/8	+ 15.2
Washington Gas Light Co.	40 1/4	48	+ 19.3
10 Railroads			
Atchison, Topeka & Santa Fe Ry. Co.	28 7/8a	23 1/8	− 19.9
Baltimore & Ohio R. R. Co.	46 3/8	31 1/4	− 32.6
Chesapeake & Ohio Railway Co.	52 3/8	61 1/4	+ 16.9
Illinois Central R. R. Co.	64 5/8	34 3/4	− 46.2
Missouri-Kansas-Texas R. R. Co.	14 1/2	4 1/4	− 70.7
Norfolk & Western Ry. Co.	57 7/8	99 3/8	+ 71.7
Pennsylvania R. R. Co.	27 7/8	12 7/8	− 53.8
Reading Co.	36 7/8	13	− 64.7
Southern Pacific Co.	20 3/8a	19 1/2	− 4.3
Union Pacific R. R. Co.	33 5/8a	26	− 22.7

(1) Formerly Allied Chem. & Dye; present name adopted 4/29/58.

(2) Formerly Union Carbide & Carbon; present name adopted 5/2/57.

a Adjusted for stock dividends, split-ups, etc.

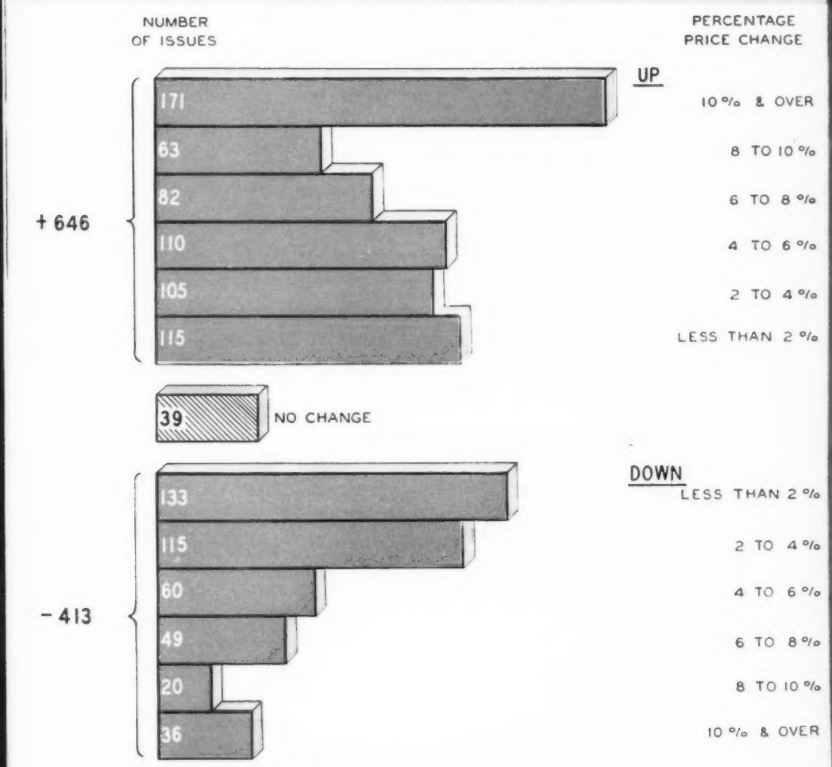
m No Sale—Mean of Bid and Asked.

UNIV OF MICHIGAN
BUS ADMIN LIBRARY
ANN ARBOR MICH

SAMPLE COPY

CHANGES IN PRICES OF LISTED COMMON STOCKS

DISTRIBUTION OF 1098 NYSE ISSUES BY PERCENTAGE PRICE CHANGE IN MONTH ENDED JUNE 15, 1960



DOW-JONES 65-STOCK AVERAGE		STANDARD & POOR'S 500-STOCK INDEX
203.27	MAY 13	55.30
212.63	JUNE 15	57.57
+ 4.6 %	CHANGE	+ 4.1 %

S

TAGE
ANGE

OVER
10 %
8 %
6 %
4 %
2 %

N 2 %
4 %
6 %
8 %
10 %
OVER